Accounting Historians Journal

Volume 26
Issue 2 *December 1999*

Article 8

1999

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Accounting Historians Journal
Vol. 26, No. 2
December 1999

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LABOR'S CHANGING RESPONSES TO MANAGEMENT RHETORICS: A STUDY OF ACCOUNTING-BASED INCENTIVE PLANS DURING THE FIRST HALF OF THE 20TH CENTURY

Abstract: This study compares organized labor's reactions to changing management rhetorics as these rhetorics surrounded accounting-based incentive plans, including profit sharing. Results suggest that labor's perceptions of profit sharing changed dramatically from the 1900-1930 period to post-World War II. The shift, in turn, prompts an exploration of two research questions: (1) how and why did the national labor discourse around the management rhetoric and its emphasis on accounting information change, and (2) how did this change render unions more governable in their support for accounting-based incentive plans?

INTRODUCTION

Enthusiasm for profit sharing and other accounting-based incentive plans made a resurgence in the U.S. during the 1990s [Labate, 1993]. Management promoted profit sharing and other accounting-based incentive plans as solutions to cyclical macroeconomic problems [Weitzman, 1984; Florkowski, 1991; Krase, 1993] and as techniques to facilitate union concessions [Perry and Kegley, 1990]. This resurgence represented only the latest wave of interest in accounting-based incentive plans in the U.S. Studies show that interest in and enthusiasm for profit sharing

Acknowledgments: The authors wish to thank Patricia Arnold, Chas Camic, John Eichenseher, Cora Marrett, Barbara Townley, and seminar participants at the University of New Mexico and the University of Wisconsin-Madison for their comments on earlier versions of this paper.

Submitted February 1999
Revised September 1999
Accepted October 1999

have ebbed and flowed throughout the 20th century despite the long-lived nature of some individual plans. The cyclical nature of these accounting-based incentive plans, however, has been ignored in some studies that have treated each profit-sharing episode as unique and unrelated [Kubly, 1958; Jehring, 1960], while other research treated episodes of profit sharing as if they were basically the same [Cheadle, 1989; Aktoul, 1992]. We argue that despite striking similarities between waves of profit sharing, the contextual details surrounding each episode differ dramatically. Further, we suggest that the management rhetorics used in advancing profit sharing and, in turn, labor unions' responses to these management techniques and related rhetorics [Abrahamson, 1997] illustrate that accounting-based incentive plans are contextual, fluid phenomena, not unchanging and instrumental management technologies.

Miller and O'Leary [1989], expressing this same concern as to the interrelationship between management rhetoric and management techniques in labor relations, emphasized the role of language, rationales, and ideology in shaping social relations among organizational and societal constituents. They argued that it is necessary to examine the role of knowledge and expertise in order to understand the transformation of social relations among organizational actors, as well as the struggles that attend these transformations. Their historical analysis suggested that society came to accept the hierarchies and managerial authority that influenced everyday life because both had been rendered visible and knowable to external constituents. Our paper seeks to extend Miller and O'Leary's [1989] microanalysis concerning the constitution of the worker and the organization as visible, knowable, and, hence, governable entities.

Specifically, we examine the transformation of organized labor's resistance to, and then support of, profit sharing as a component of workers' compensation. Our study compares two waves of profit sharing. In the first period, circa 1900-1925, labor often resisted a management rhetoric that emphasized accounting information as an objective, passive measure of profit in accounting-based incentive plans. By contrast, in the period following World War II, several large unions actively supported accounting-based incentive plans, not only accepting but promoting a management rhetoric of value-neutral accounting as unions demanded increased access to accounting reports and relied increasingly on accounting information within their own decision processes. This dramatic shift in labor's views pertaining to the management rhetoric of accounting-based incentive plans, and the resultant shift in views related to the acceptance of accounting-based incentives, suggests that it was not just the individual worker or organization that was rendered governable [Miller and O'Leary, 1989]. Unions also became increasingly governable as they eventually acquiesced to and took for granted the application of calculative regimes of accounting profit calculations.

THE MANAGEMENT RHETORIC OF PROFIT SHARING

Stryker [1990] argued that in arenas of frequent, inherent conflict historical analysis can identify and elaborate upon the selective institutional mechanisms that systematically contribute to the production, resistance to or acceptance of, and the reproduction of organizational innovations such as accounting-based incentive plans. Such a perspective is also necessary to understand the diffusion of these institutional patterns, particularly the manner in which social order is produced and reproduced in labor-management relations [Kolko, 1963; Stryker, 1990]. Stryker [1990] further suggested that because both functional and dysfunctional outcomes are achieved through conflict and because selective mechanisms include political-institutional dynamics, future research must provide comparative historical perspectives on how, why, and in what context political-institutional mechanisms systematically combine to produce outcomes.

Consistent with this theme, Miller and O'Leary [1989] have examined the process by which the existence of bureaucratic hierarchies was reconciled with the American ideal of individual initiative. Their historical analysis suggested that individuals came to accept hierarchies and managerial authority that influence everyday life as society became increasingly visible and knowable to external constituents. It is this quality of knowability that became taken for granted or a fact of life in contemporary society. Miller and O'Leary reasoned that the interlinking of the corporation with the political culture was essential to this process, such that the political culture provided ideals favoring economy, efficiency, and science that were converted into "facts" concerning what are appropriate corporate structures and professional managerial behavior. This "fact"-based status had in turn been achieved by codifying related structures and behaviors into an analyzed body of knowledge. As Miller and O'Leary argued, the large-scale, multi-unit corporation was not uncritically welcomed into North American society and neither was the authority of those who managed this new economic form. They argued that new corporate managerial structures were not derived from arbitrary decrees of a managerial elite nor did managerial authority come from privileged social positions. Instead, both managerial structures and authority were both propagated by objective facts and techniques. Accounting became a significant forum for expressing facts as it too became taken for granted as creating a visibility of each organization's and individual member's performance. Miller and O'Leary [1989, pp. 262-263] concluded that:

> The principal implication of this paper is the proposition that critical studies of the modem corporation can benefit from a more microanalytic concern with the conditions of possibility of hierarchies. This entails an analysis of the elementary components — intellectual, cultural, institutional and technical practices [such as accounting techniques] — out of which that complex entity called the modern corporation has been constructed. . . . This is, in effect, a call for critical studies of the corporation to work upwards from specific processes and their interrelations, rather than downwards from an assumption that the outworkings of power can be detected and made intelligible by reference to a broad historical postulate such as that of capitalist domination.

More specifically concerning management rhetoric and labor relations, Abrahamson [1997] argued that students of techniques for managing employees are generally unable to explain the prevalence of different types of management rhetoric. Abrahamson emphasized the importance of understanding the role of rhetoric because the emergence of a particular form of rhetoric may influence long-term macroeconomic trends, rather than being merely a consequence of those trends. Rhetoric is constitutive. Furthermore, he argued that since employee management rhetoric may greatly influence what managers do, an understanding of forces influencing its role is an important objective for research. For Abrahamson, understanding these forces meant seeking a more complex and holistic picture that included examining the role of government intervention in the evolution of managerial rhetorics. Finally, Abrahamson conceded that his work represented a broad analysis of the role of rhetoric over five periods in this century and urged a disaggregation of these periods be undertaken in order to gain a more "fine grain" understanding of evolving managerial rhetoric.

Consistent with Abrahamson's call, our study compares two waves of profit sharing — an early episode that occurred in the first decades of this century and a second wave following World War II. Specifically, we examine labor unions' reactions to, and impact upon, the management rhetoric surrounding profit sharing and related accounting-based incentive plans during these two time periods. Particularly important to our analysis is Abrahamson's [1997] distinction between two classes of management rhetorics — "rational rhetoric" and "normative rhetoric." The key assumption underlying normative rhetoric is that employers can render employees more productive by shaping their thoughts and capitalizing on their emotions. The key assumption underlying rational rhetoric is that work processes can be formalized and rationalized to optimize productivity, as can the reward systems that guarantee recalcitrant employees' adherence to these formal processes. Extending the work of Jacoby [1985], Abrahamson identified the mid-1920s as the culmination of a normative rhetoric period that promoted company welfare practices, including financial incentives such as profit sharing and employee-stock-ownership programs, that were intended to align the objectives of employees with their organization. Abrahamson argued that normative management rhetoric involving such discourses as profit sharing tend to predominate because they promised to forestall the discontent that causes employees to join labor unions and strike. Therefore, he argued, the prevalence of normative rhetoric will be directly related to the rise and vigor of labor union activity.

While Abrahamson and Jacoby placed profit sharing in the mid-1920s as one form of normative rhetoric, our study suggests that these plans provide early glimpses of a shift to rational managerial rhetoric as accounting is a central part of rational management rhetoric. This focus places profit sharing in a more complex light, evolving from the rational rhetoric of the scientific management period prior to the mid-1920s. Further, labor's response to profit-sharing plans was a reaction to both profit-sharing plans as normative techniques and management's appeal to accounting as a rational technique.

The critical point is that tools which have been interpreted as either normative rhetoric or rational rhetoric are instead evolving in their very nature. On this point, Baron et al.'s [1986] study of the diffusion of scientific management indicated that techniques associated with scientific management actually fueled, rather than forestalled, unionization in many industries. This argument is also consistent with the work of Barley and

Kunda [1992], who concluded that the prevalence of rational rhetoric managerial techniques was unsuccessful in early scientific management because the normative promise of labor peace was clearly discredited over most of this period. In short, our closer examination of profit sharing and allied management rhetoric in the early decades of the century goes beyond classifying it as a normative rhetoric of the 1920s, but sees it as evolving to this status from an earlier status as a form of rational rhetoric.

The emergence of accounting as a rational managerial technique toward the end of the early decades of U.S. labor unrest was a preamble to labor's responses in the second period we study. The second period we examine is a period of pervasive profit sharing that emerged following World War II. In both periods, management rhetoric advocated profit sharing and other accounting-based incentive plans as a solution to labor unrest. Furthermore, these plans were developed and adopted in periods of "perceived" economic changes and crises. Both periods are also marked by attempts to reconstitute workers as "cooperative participants" in production. However, whereas in the first decades of the century labor often resisted a management rhetoric advocating accounting-based incentive plans on normative terms, in the period following World War II many large unions actively embraced and pursued them. Thus, in this latter period, many unions not only accepted the management rhetoric surrounding profit-sharing plans but began also to accept and promote accounting as part of that management rhetoric. In this latter period, unions began to demand increased access to accounting reports and relied increasingly on accounting information for union decisions.

Indeed, our findings of a period of resistance followed by a period of acceptance is consistent with Abrahamson's recognition that rhetorics sometimes persist and even resurge in later periods. Abrahamson also argued that historical events such as wars and government intervention are also important for understanding the influence and changes in management rhetorics [Jacoby, 1985; Shenhav, 1995] — the focus of our analysis.

In summary, our study is prompted by two major research questions: (1) how and why did the national labor discourse around the management rhetorics of profit sharing with its emphasis on accounting information change, and (2) how did this change affect union support for, or opposition to, accounting-based incentive plans?

To answer these research questions, we examined accounting-based incentive plans from each of the two major periods. Our study relies on both primary and secondary sources, including archival records, collective-bargaining agreements, letters from unions to company officials, and minutes from national and local union meetings [Cook and Reichardt, 1979]. We also examined the labor press from 1900 to 1970 extensively, reading selected labor papers in their entirety. The national labor press included journals and papers from the American Federation of Labor (AFL), the Congress of Industrial Organizations (CIO), the AFL-CIO in later years, and two national unions — the United Steel Workers of America (USWA) and the United Rubber Workers (URW). In addition, we examined many newspapers published by the labor press of state or union locals. We also documented what we did not find, for example, where accounting was not mentioned [for a discussion of examining newspaper coverage in organizational analysis, see Allison, 1971; Herman and Chomsky, 1988; Zelizer, 1992].

PROFIT SHARING IN THE EARLY PERIOD

According to Abrahamson [1997], the key assumption underlying normative rhetoric is that employers can render employees more productive by shaping their thoughts and capitalizing on their emotions. He characterized early normative employee management rhetoric in the U.S. as evolving from forms of industrial betterment, or welfare work, which was designed to shape employees' values, intellectual skills, and work ethics. By the mid-1920s, a normative rhetoric emerged which promoted the use of welfare work techniques that incorporated financial incentives such as profit sharing and related accounting-based incentive plans as part of the management techniques intended to align the objectives of employees with the organization. The emphasis on cooperation in this period is illustrated by the Spencer Wire Company plan of 1915:

> The success or failure of the plan, therefore, is in your hands. Our objective is several fold: The Company desires to interest you in its financial result, and is willing to share its profits. It hopes in return that the profits will be increased by employees taking a personal interest in the continued success of the business, leading them to exercise the greatest possible care to prevent bad work and waste of time and material. Also to encourage increased production and suggestions of im-

provement of any nature [employment contract in Burritt et al., 1918, p. 271].

This excerpt illustrates that cooperation was not seen as a desired outcome for its own sake, but because it was expected to increase productivity. Managers and owners of firms generally cited four reasons for implementing accounting-based incentive plans: 1) to make workers more concerned about costs and careful about their work, 2) to increase efficiency, 3) to stabilize the work force, and 4) to improve relations between management and employees [Engen, 1967]. Burritt et al.'s [1918, p. 18] study was more specific. It listed "industrial unrest and agitation" as the major reason for growing interest in profit sharing, stating: "Insurance against strikes is sought by limiting participation in profits to those who have been in continuous service for a specified period, usually one year."

During this early period, profit-sharing plans had other common features, including the "continuous employment" clauses. Plans were offered unilaterally by employers and could be withdrawn at will or at the end of the fiscal year. Plans often contained no language which specified how accounting profit was to be computed (for example, how depreciation might be handled). Most offered workers no recourse if they questioned some aspect of the plan. Few gave employees the right to have an outside auditor examine the profit figures. Furthermore, these plans were often implemented as part of larger schemes of "welfare capitalism," as part of employers' efforts to engineer both the working and private lives of their workers [Jacoby, 1985]. Burritt et al. [1918] described over 50 profit-sharing plans from that period. However, two of the most well-documented plans (Ford and McCormick) illustrate the role these plans played in labor relations during the period.

For example, Henry Ford implemented his famous "Five Dollar a Day" profit-sharing plan as part of a comprehensive system of welfare capitalism introduced to reduce high levels of absenteeism and turnover, to increase the pace of work, and to counter threats of unionization. There were reasons to be concerned. In 1913, the company experienced an average of 10% absenteeism. Turnover was 380% annually, which meant that Ford had to hire 52,000 workers per year to keep 13,000 positions filled [Meyer, 1981]. Both Ford and his management cadre believed workers needed to change their way of working. Norval A. Hawkins, a manager at Ford, created a list of bad habits that he felt welfare capitalism might improve. Workers who needed improvement included "chronic strollers and time killers," "sulkers, grunters, backtalkers, mumblers," "[those with] antagonism to improved methods," and "[those] doctoring records to suit the boss" [cited in Meyer, 1981, p. 741]. Henry Ford himself stated: "More than half the trouble in the world today is the 'soldiering' and dilution and inefficiency for which people are paying good money" [cited in Meyer, 1981, p. 88).

Ford's plan increased wages for all workers by 15% and reduced the work day from nine hours to eight. Further, a portion of some workers' compensation was based on the company's reported profits. After including profit sharing, the maximum pay for some skilled workers could be as high as $5 per day (thus, the name of the plan). Only workers who performed well at work and who lived well at home could be recommended for participation in the plan. Floor supervisors would decide who worked well, and inspectors from the firm's Sociology Department determined who lived well at home [Benyon, 1973; Meyer, 1981].

Although the turnover and absenteeism decreased after the introduction of welfare capitalism in 1913 and 1914, it does not appear that profit sharing solved Ford's labor problems or prevented unionization. In April 1919, the Auto Workers Union struck Wadsworth Manufacturing who supplied Ford with auto bodies. During the strike, over 700 Ford workers per day joined the union. By 1920, 6,000 workers had quit working at Ford Motor Company within a 90-day period [*New York Times*, November 25, 1920, p. 16]. In the same year, Ford distributed bonuses to 94,000 workers which ranged from $50 to $270 [*New York Times,* December 31, 1920, p. 1]. In 1921, Ford canceled the plan entirely, stating that he was going to increase wages instead, and that increased wages would make up for the bonuses that workers were not going to receive [*New York Times,* May 7, 1921, May 23, 1921]. Reverend Marquis, who headed the welfare projects at Ford Motor Company, resigned. His explanation demonstrates the normative rhetoric underlying these plans:

> I resigned from the Ford Motor Company in 1921. The old group of executives, who at times set justice and humanity above profits and production, were gone. With them, it seemed to me, had gone an era of cooperation and goodwill in the company. There came to the front those whose theory was that men are more profitable to an industry when driven than led, that

> fear is a greater incentive to work than loyalty [quoted in Benyon, 1973, p. 39].

Similar to Ford Motor, difficult labor-management relations also preceded profit sharing at the McCormick Company [Ozanne, 1967]. In 1903, McCormick introduced the company's first accounting-based incentive plan following a strike that occurred at a major division, the Chicago Deering Works. The company tailored that plan so that workers needed one year of "faithful employee" status to participate. The plan resulted in stock distributions of around $300 to 700 production workers; in some cases, the $300 bonus equaled the employee's annual wages. Ozanne [1967] argued that the profit-sharing plan slowed unionizing activity, especially after 20 union activists, largely the organizers of the Chicago Deering Works strike, were disqualified from the plan because they did not satisfy McCormick's "faithful employee" requirements. Cyrus McCormick, Jr. stated that he believed that these types of plans were a "very practical step toward removing any possible danger of Bolshevism" [Paper Series 4C, Box 6, State Historical Society of Wisconsin]. However, as in the Ford Motor plan, the stock distribution did not end labor-management problems at McCormick. Union organizing continued at the plants. As the wage agreement of 1903 approached expiration in 1904, McCormick decided to lock the workers out rather than increase wages. Following a strike in 1913, a revised incentive plan was implemented. This time, 63% of employees signed up, but the plan did not solve McCormick's labor problems. Workers went out on strike for 30 days in May 1916. The company further revised this plan in 1920, but in the following year, the company made so little profit that nothing was paid out. Eventually, all of the plans were destroyed by the low profits of the 1920s and, in particular, by the Great Depression, when McCormick's stock price dropped from $75 to below $16 [Ozanne, 1967, pp. 86-94].

Management Rhetoric and Union Resistance: Many union leaders opposed accounting-based incentive plans during this early period [Kubley, 1958; Cheadle, 1989]. Throughout the labor press, we found arguments against profit sharing that contended that profit sharing was introduced to prevent unionization. For example, the *Detroit Labor News* [August 29, 1919, p. 16] described profit-sharing plans as setting worker against worker:

> Shops that have unions do not have profit-sharing plans. Most profit-sharing concerns pay lower wages than prevailing union rates for the same work, and profit sharing is adopted in most cases to prevent an organization in the shop and to discourage agitation for better conditions and lower hours.

The *Wisconsin Labor Bulletin* [May 26, 1916, p. 2] noted that the McCormick Company had introduced its profit-sharing plan two days before Christmas, reflecting a "paternalistic, benevolent despotism" that lay behind the plan. The paper stated, "profit sharing schemes are a deception. They do not benefit the great bulk of workers." Similarly, the *Cleveland Citizen* [January 10, 1914, p. 1] said that the Ford Motor Company's profit-sharing plan "vindicates the most radical union demands." The article added:

> While Ford's scheme will be denounced as utopian, socialistic, etc. by other great capitalists and their newspapers, the general public will nevertheless be taught a valuable lesson respecting the unequal distribution of wealth now flowing into the coffers of the great corporations.

The Illinois State Federation of Labor [1918, p. 283] condemned profit sharing during its annual meeting, stating:

> Many are the agencies that keep labor divided; politics and religion, prejudice and selfishness, preferment and flattery, are all ready weapons in their inexorable grasp. But capital uses no more vicious agency against the workers than the bonus system when used to prevent [union] organization.

As these quotations suggest, organized labor viewed accounting-based incentive plans as divisive measures used to weaken union organizing activities. Throughout this early period, labor leaders also articulated multiple concerns about the accounting basis of these plans. Three major themes emerged: 1) that accounting was not an objective, neutral activity and was therefore not trustworthy; 2) that accounting was not relevant; and 3) that the assumptions underlying accounting were debatable. In short, the critical point of resistance seemed to hinge upon labor's belief that accounting numbers could not be trusted because these numbers were produced by companies that could not be trusted. The *Detroit Labor News* [April 29, 1921, p. 2] observed:

> Dividing profits has a brotherly sound, but it means nothing to those who know that the trust retains the power to decide what constitutes profits, and the skilled accountants can pile up the 'debit' side of the ledger to any height desired.. Workers who accept the trust's bonus system play with loaded dice, because corporation profits is a matter of figure jugglery in which they have no part.

Articles explicitly cautioned workers not to believe the "figures" provided by owners and managers. The *Detroit Labor News* [February 14, 1930, p. 6] stated:

> When a corporation figures profits this does not mean the total amount received, as with wages. Often skilled accountants exhaust their ingenuity in disposing of income. There is only one way to secure a higher wage. To win that, objective workers must organize and do their own thinking. They would not accept the views of the so-called economists who strive to maintain the status quo. If these profits go unchallenged, a greater concentration of wealth and pauperization of additional workers is inevitable.

The labor press criticized the way accounting profits were calculated. For example, the *Reading Labor Advocate* complained about recording depletion as an expense. Instead, the paper argued that both depletion and depreciation should be deducted directly from the stockholders' equity account. Further, the paper [March 6, 1926, p. 5] complained that companies used stock splits to hide profit. The *Cleveland Citizen* [December 29, 1923, p. 4] stated that it was impossible to police the coal industry because there were so many changes in ownership that really represented only "bookkeeping transactions which in many cases involve no physical possession." The *Detroit Labor News* [August 17, 1923, p. 2] pointed out that the big profits shown by the U. S. Steel Corporation were "after all charges have been met and money set aside for improvement." This paper also noted that profits were "after fancy salaries and the storing away of vast sums" [September 7, 1923, p. 2] and that:

> The fully sophisticated corporation ordinarily hides the nature of this double charge [depreciation] by the bookkeeping methods of capitalizing the surplus. Commercial methods of accounting are not capable of detecting the idleness of machinery. Bookkeepers, whether dignified with resonant titles or not, are no

> more than money clerks for men of money. They have the dollar bias. They cannot think back from the dollar to the man-machine combination [*Detroit Labor News*, August 19, 1918, p. 4].

A second argument prominent in the press was that accounting reports and measures were not relevant to the important issues of the day. They argued that accounting numbers could play no significant role in social debates that involved issues of fairness, morality, and ethics. Some segments of labor viewed the use of accounting calculations as incompatible with, or at least inadequate for, dealing with (normative) issues of fairness. For example, the *Cleveland Citizen* [May 8, 1920, p. 3] questioned the extensive use of such metrics as accounting numbers in the debates over railroad strikes. "The whole question of work and wages has a political as well as an economic aspect, and it is quite likely that this fact will become fully understood by American Labor." Other segments of labor argued that workers deserved a "living wage" not a wage based on a company's profits. For example, the *Detroit Labor News* [September 7, 1923, p. 2] commented that a "just and reasonable wage" should not be based purely on profit:

> On the basis of a living wage workers have something to figure from. The cost of supporting an average family in average comfort can be determined with a fair degree of accuracy. But a just and reasonable wage, what is it? From past action of the [coal] board, we would be justified in assuming that it is one that is entirely satisfactory to the railroad owners.

The arguments of the labor press often stressed the moral and ethical issues that organized labor felt were more important than the measure of accounting profit. The United Automobile, Aircraft, and Vehicle Workers of America asked in an article entitled "What is a Fair Wage?":

> A decision always proves to be a truce, a compromise. In fact, no final and permanent decision can be reached because there is no finality in the worker's ethical standard. And there is no finality to the opposition to concessions made by the capitalist. For this reason, these struggles will always be camouflaged with an ethical appeal. The capitalist cannot resort to the ethical argument unless he is on the average of bankruptcy, and can thus resort to the feelings of his advisors. As a rule, he seldom has this argument and is forced by the very nature of things to discuss book-

> keeping, profits, interest, loans, new equipment and dividends. He thus appears heartless and callous, immune from higher appeal. The fact is that he would resort to the ethical appeal if he could and he does so when the conditions of business are such that he can do so without detection. The ethics of this whole matter can never be square with economic conditions until society becomes organized on a basis of equitable production [*Auto Worker,* October 19, 1919, p. 9].

In this period of struggle and conflict, the mutable nature of accounting information appears to have been clear to some segments of organized labor, who challenged both the basic assumptions underlying the use of accounting measurements and the accounting measurements themselves. Importantly, the economic information which provides the foundation for accounting-based incentive plans was not being viewed as an acceptable form of discourse; thus, its power to transform social values was limited [Edelman, 1977; Clegg, 1987]. In a particularly vehement example of this, the Federation of Labor Press of Detroit argued that labor should never accept the rules and arguments of capital:

> When the purchased chattel of capital strangles his honest conviction to become defenders of the rules and terms established by employers to enslave labor and to raise barriers against the worker entrenching himself behind breast-works of the labor movement, he dips his prostituted pen into the repulsive slime of calumny *[Detroit Labor News*, January 9, 1918, p. 4].

Finally, some of labor's resistance centered on the assumptions underlying "accounting" as it had been conceptualized and practiced. These critiques focused on the use of exchange value rather than labor production values as the only acceptable representation of value. *New Solidarity,* the paper of the International Workers of the World (IWW), often made this point, but the issue was also discussed in the papers of the Detroit Federation of Labor [*Detroit Labor News*, August 17, 1923, p. 2, January 21, 1921, p. 21; *Labor Compendium of St. Louis*, February, 1905, p. 2].

The strongest challenge to the accounting assumptions came from the most radical newspapers. The IWW often encouraged workers to gather their own information about productive processes so that they would be ready to run the economy after capitalism had been destroyed. When they accomplished this, it was argued, the existing accounting system would also be destroyed. In its place, buying and selling would be on the basis of labor involved. Each worker would receive a "labor" passbook. In this way, the IWW believed that no "capitalist robbery based on wage labor would be possible [*One Big Union Monthly*, June 1919, p. 25].

In addition, the IWW seemed to recognize how deeply certain structures of business interest were embedded within existing accounting practices (e.g., the use of market-based exchange values). The union argued that is was dangerous to account for things in a way inconsistent with the social structures they were trying to build. During the early 1920s, the union tried to implement an accounting system that would not "give a false nature" to the organizational structure that would be in place and working when the IWW succeeded in overthrowing capitalism. In addition, the IWW believed that accounting should be done by everyone, and not be an exercise of knowledge of just a few. 'Therefore, the union recommended that thousands of workers be trained to do accounting in a new way; that is, based on labor values [*New Solidarity*, April 19, 1920, p. 1].

More Moderate Union Reaction: While accounting-based incentive plans were frequently rejected by labor groups during the early 1900s, there were other more reformist union groups which were competing with the more radical federations of labor [Galenson, 1960; see also Michael and Nelson, 1998]. This more reformist discussion of capitalism and labor-management relations began to focus on the Progressive movement discourse of expertise, rationalization, and quantitative measurement [Kolko, 1963; Larson, 1977; Stryker, 1990; Covaleski and Dirsmith, 1995]. For example, the *American Federationist*, the monthly journal of the AFL, reflected the more moderate views of labor-management relations of Samuel Gompers, William Green, and the editors of the journal. Because the major goal of the AFL was to obtain a "fair day's wage for a fair day's work," the AFL's struggles became focused on defining a "fair day's work." Gompers stated in an interview that organized labor "demanded no special favors, no old-age pensions, no socialistic legislation. They only want justice" [*American Federationist,* December 1908, p. 1057], and this "justice" now meant fair wages instead of a living wage. Furthermore, the AFL used the language of the Progressive movement, stressing education, both industrial and physical, and cooperation between labor and management as social solutions to industrial problems. For example, William Green restated the AFL's support for cooperation in an editorial entitled "Team Play" which noted that the United States Chamber of Commerce's annual conference stressed industrial peace:

> The newer idea is that profits are due to superior management and that cooperation of all concerned in a producing establishment is necessary to make better management effective. The former president of the Chamber of Commerce, Lewis Pierson, made a most powerful appeal for 'Team Play' for 'Prosperity,' looking to a not distant day when organized business, organized labor and a comprehending government shall unite for the intelligent team work that alone can solve our newer problems [*American Federationist,* July 1928, p. 32].

In short, the AFL argued for industrial cooperation based on effective and efficient participation of citizens who were well educated and in good health. Expertise and science would play a role, as would a progressive government. In this context, the battle over efficiency was often reduced to a discussion of measurement. An explicit discussion of this came in 1925 in an editorial entitled "The Industrial Measuring Rod." The editorial stated:

> How difficult it was to convince, even in industry that is in advance of many in keeping records as steel, of the superior efficiency of the shorter workday indicates how few standards for measuring the result of personal policies have thus been developed. By promoting a stable personnel organization, not only are the turnover costs eliminated, but the economies of more efficient production become a very considerable factor. It is difficult for a business management to visualize such results and for the trade unions to supply factual data. But it is important that such data and measuring rods be available to not only the industry but the public to evaluate policies. To develop such standards is primarily the function of management and engineers. Workers can and would be glad to help under proper provisions [*Cleveland Citizen*, August 19, 1925, p. 1].

The labor press in the 1920s illustrated the tensions emerging between those who sought to fundamentally change or eliminate capitalism and those primarily interested in securing a share of the growing industrial wealth by invoking expertise, science, and the search for efficiency which characterized the

Progressive movement [Hays, 1959; Haber, 1964; Miller and O'Leary, 1989]. The *Detroit Labor News,* one of the presses most critical of accounting and profit sharing a few years earlier, provided an excellent example of this tension. In 1929, the paper ran several front-page articles promoting industrial peace through cooperation and advocating the use of expertise, calculation, and science. Yet, on this same page an article entitled "Trade Unionism Fits into American Ideal" [December 20, 1929, p. 1] warned:

> This historic opposition to trade unionism takes a new form as old methods are exposed. This opposition can be expected because trade unionism rejects man's control of man. The crude opposition of by-gone-days — Pinkerton detectives, militia and regimented armies of strikebreakers — has been replaced by cunning and stealth. Our present day opponents have discovered that the most effective way to control workers is to control the mind.

In summary, in this period of labor unrest, labor viewed accounting as neither immutable nor neutral. While many businesses and some levels of government turned to arguments couched in accounting and other administrative language, labor challenged both the morality of underlying institutions of capitalism and the representations of these institutions provided by management or its accounting vassals (specifically, their representations of profit). As demonstrated in the above excerpts, the early decades of the century were a time of pronounced struggle over accounting as discourse, as well as over wages and working conditions. Accounting was described as the province of owners and managers who could not be trusted. Further, the labor press described the accounting reports as representing the perspectives and interest of owners and managers.

PROFIT SHARING FOLLOWING WORLD WAR II

The second wave of accounting-based incentive plans began before World War II, increasing dramatically after the war. Studies usually list two legislative and one managerial reasons for the increased usage of these incentive systems. First, tax laws were changed, creating a more hospitable climate for profit sharing. Second, most profit-sharing and gain-sharing plans were exempted from the U.S. government's wage stabilization policies following World War II [Thompson, 1949;

American Federationist, July 1950; Knowlton, 1954a,b] Third, studies have suggested that management wanted to create incentives to tie workers' interests to the firm, sometimes phrased as "making our people capitalists" [Council on Profit Sharing Industries, 1954; Knowlton, 1954a,b; Jehring, 1960]. As with the earlier wave, managers sometimes described accounting-based incentive plans as means of improving the flaws and shortcomings of workers. For example, a manager from the Quality Casting Company, which introduced profit sharing in 1945, stated:

> One example of getting people to assume responsibility is one of which we are very proud. We have a lot of colored boys [sic] working for us. Several years ago we were able to encourage a couple of them to take the money that they had received from profit sharing and start building or providing a home for themselves. Of course, it changed their outlook on many things, and particularly at work, it made them far more responsible. That was what we wanted to do. [Council on Profit Sharing Industries, 1954, p. 106].

Worker loyalty and responsibility was valued because managers thought these incentives would create workers who were attentive to costs, efficient, and willing to accept new technology [Thompson, 1949; Knowlton, 1954a,b; Jehring, 1960]. In particular, accounting-based incentive plans were often implemented to decrease labor conflict over engineering-based piece rates and work rules [Oakes and Covaleski, 1994] as evidenced in such places as a gain-sharing plan at Kaiser Steel's Fontana, Califonia plant [*Monthly Labor Review*, April 1964; *Steel Labor*, July 1964]; at Quality Castings Company [Jehring, 1960]; at LaPointe Machine Tool Company [Schultz and Crisara, 1948]; at Parker Pen ["Parker Pen Memoranda," 1954]; and at American Motors Corporation [*Kenosha Labor*, August 3, 1961, October 6, 1961, October 12, 1961].

These post-World War II profit-sharing and gain-sharing plans differed from their counterparts in the early decades of the century. Many plans were implemented as part of collective bargaining rather than being unilaterally implemented by management as in the prior era. Further, most allowed at least some redress over accounting issues. Most gain-sharing plans and many profit-sharing plans instituted specific means for union/management cooperation. These mechanisms often took the form of committees (e.g., the Progress Sharing Committees at Kaiser and the Scanlon Committee at Parker Pen). Further, these plans often used the rhetoric of "teamwork" to advocate their agendas [Thompson, 1949; Knowlton, 1954a,b; Jehring, 1960].

The second wave of profit sharing received union support which was widely accomplished by favorable commentary in the labor press [*American Federationist*, July 1950; Zalusky, 1991]. In addition, the labor press of the post-World War II period reflected a change in labor's views of accounting. These changes are illustrated both directly and indirectly. For example, organized labor no longer resisted the use of measurement, regulation, and formalistic solutions to labor/management disputes. In fact, union discussions of "productivity" and labor's "fair share of its fruits" promoted the use of formula-based bargaining [c.f., *American Federationist,* November 1949, p. 16; *Voice of Local 212*, January 1951, p. 4]. The AFL press continued to argue that it was important to end antagonistic relationships between labor and management and to bargain cooperatively. The *American Federationist* [July 1950, p. 18], for example, stated: "The practical use of union-management cooperation is, we think, indispensable to best results." The monthly journal of the USWA also editorialized favorably about cooperation, noting:

> Something new in the field of labor-management relations is taking place in steel communities around the country. The president of the nation's largest union and the chairman of the biggest steel producer in the world are digging into labor problems at the plant level [*Steel Labor,* December 1959, p. 18].

Other labor leaders also began to express similar views; for example, the URW executive committee called for "careful cooperation" with the Big Four rubber companies [*URW Convention Proceedings*, February 1948, p. 29].

The labor press also began to discuss accounting earnings more frequently to advocate for labor. Local and national labor newspapers began reporting accounting-based profit figures routinely. These reports included sales figures in dollars, and annual and quarterly earnings statements taken directly from the business press. Many reports were taken verbatim from the *Wall Street Journal*. Union leaders appealed to these earnings figures to justify wage demands. For example, Philip Murray of the CIO stated:

> Demands of this union for a wage increase and other improvements in our basic steel contracts are economi-

> cally right, economically feasible and entirely justifiable. No propaganda appeals by the steel companies to the public can hide the fact that the present profit margin of the steel industry is so great it could easily grant the union's demands without raising prices at all [*Steel Labor,* February 1952, p. 1].

In another example, Walter P. Reuther of the United Auto Workers of America (UAW) sent a letter to Chrysler following a 99-day strike in 1950 that said:

> Despite the 1949 record profits of $213 million, the Chrysler Corporation was unwilling to grant its workers the same reasonable demands which other companies granted.
>
> Chrysler lacked the simple, common decency to share the profits with workers [*Voice of Local 212*, May 1950, p. 3].

During this period unions often called for more accounting information. This increased use of accounting came from both labor's demands to see the books and from management's insistence that labor take financial arguments seriously. For example, during the 113-day strike at General Motors during 1955-1956, one of the UAW's central demands was for the company to "open the books" to determine if a raise was feasible. When General Motors refused, President Harry Truman set up a "fact-finding committee" which found that a wage increase was reasonable. General Motors still refused to grant a raise, and the strike went on two months after the committee's report was issued. Workers on the picket line carried signs that called on General Motors to let the public "see the facts." [UAW, 1985, p. 50]. This call for accounting information was echoed by union leaders in the May 1949 edition of the *Journal of Accountancy.*

The most prominent union figure calling for profit sharing was Walter P. Reuther, head of the UAW. In early 1958, the Executive Board of the UAW added profit sharing to its list of bargaining demands. The UAW membership was divided and ultimately dropped this demand at its 1958 convention, deciding to focus on decreasing the work week in order to solve mounting unemployment [*Voice of Local 212*, February 1958, December 1958]. However, Reuther continued to push for profit sharing as a "way to solve serious and growing economic problems." In an interview on the CBS [March 23, 1958] program, "Face the Nation," Reuther stated that:

> The prime economic motivation behind our profit sharing plan is our desire to find a way by which wage earners at the bargaining table can achieve their equity, their measure of economic and social justice, on a basis that will be absolutely, positively non-inflationary in character.

When asked how serious the UAW was in its demand for profit sharing, Reuther answered, "We are dead serious." Additionally, Reuther called for profit sharing again in 1963 when he stated: "Profit sharing is rational because it shares a pie that's already baked." He called on industry to get "emotionally adjusted" to the idea. Reuther's argument that profit-sharing plans are a reasonable way to divide up the fruits of labor reflects his acceptance of accounting as a measure of productivity and as a basis for determining labor's "fair share" [*Solidarity,* February 1963, p. 3].

In some sense, what was not said in the labor press reflects organized labor's views as much as what was said. There were few examples of labor's earlier criticisms of accounting in terms of its being untrustworthy, irrelevant, or political. Gone was the critique of accounting numbers based on market-based exchange values rather than labor theory values to represent economic reality. Further, the labor press contained no discussions of the morality of using numbers to discuss social issues.

With few exceptions, the labor press did not question the manner in which financial reports were prepared. We found only two explicit complaints about accounting, both in the *Voice of Local 212*. In the first example, the union complained that the annual financial statements of Briggs Manufacturing did not give the union credit for the improved working conditions [November 1949, p. 2]. In the second example, the paper [May 1951, p. 2] stated: "Companies try to make profit look smaller by sometimes talking about net profit and other times about gross profits. This confuses people." When asked to speak to accountants, labor leaders did complain about some accounting practices [Gomberg, 1947], but these concerns were no longer part of labor's own press.

On the other hand, both profit-sharing and gain-sharing plans involved increasingly complicated formulas and calculations. For example, the profit-sharing plan at American Motors involved problematic financial reporting issues including, at one point, removing extraordinary gains and losses and deducting earnings from foreign investments and licenses [*New York Times*, October 13, 1964, p. 23]. The plan at Kaiser Steel required that "actual costs" be compared to a baseline measure of costs established in 1961. The difference between the two would be multiplied by the tons of steel finished that month, and then any new equipment that "improved productivity" was subtracted at a rate of 1/6 of the cost per month. At Parker Pen, the Scanlon plan allowed the bonus ratio to be adjusted for changes in product mix, subcontracting, or technology — all items which created significant measurement problems ["Parker Pen Memorandum," 1954]. In other words, plans often involved particular accounting issues that could be points of conflict, even if unions accepted the basic premises underlying the accounting system.

In summary, this second period reveals the extent to which debates had shifted from moral issues (including the appropriate definition and boundaries of labor conflict) to debates of fact (how do we measure productivity, what are true profits). This shift reflects, in large part, the way that the rhetoric of organized labor was subsumed by the rhetoric of rationality [Zucker, 1977; Gordon et al., 1982; Jacoby, 1985]. It also reflects the widespread trend toward specialization of expertise and knowledge in which unions came to depend on the accounting measures and the expertise of nonunion sources like the *Wall Street Journal*, in which union leaders spoke about accounting issues with accountants but not with the rank and file. The structural changes in the relationship between labor and management, reflected in both the labor press and in organized labor's discussion of cooperation, were rapidly consolidated in the post-war period. Gordon et al. [1982, p. 188] remarked on the rate of this transformation in this way:

> In retrospect, the speed and comprehensiveness of unions' postwar accommodation with management in the new system of labor management appear quite remarkable. By the early 1950's, large corporations had succeeded in shaping and applying an essentially new structure of labor management.

DISCUSSION

The two waves of accounting-based incentive plans examined in this study shared a number of important features. In both periods, employers instituted these plans to deal with labor problems. Plans in both periods were couched in terms of "cooperation" and in terms of creating responsible, efficient, loyal employees. They were intended to relocate or recreate the employee into a governable working subject [Townley, 1994]. Significant differences existed, however, including organized labor's changing views of the plans. As accounting measurement is an integral part of these plans, labor's changing views of accounting are reflected in their altered stance toward profit sharing and other incentive plans.

The labor press of the first era examined offers many examples where labor writers and leaders felt confident in critically commenting on the nature and practice of accounting. Labor papers also discussed relatively complex business transactions (e.g., stock splits) with little hesitancy. Further, these conversations occurred within the labor press itself, suggesting that union organizers and leaders expected this critique to be understandable and important to union members. Often accounting was described in terms of the biased reports of owners whose interests opposed the interests of workers. In addition, the more radical presses argued that union members must learn to do accounting themselves. Following World War II, however, the labor press seldom commented on accounting as a practice. Further, when it reported accounting profits, the press frequently attributed its information to the *Wall Street Journal* and other sources from the business press that were ostensibly independent of employers. Accounting information began to fall outside the focus and core competencies of unions and the labor press.

Impact of Government Intervention and the Triumph of Rationality: As noted earlier, the seeds of transition from normative management rhetorics to rhetorics of rationality were planted early in the 20th century. The change did not come to fruition, however, until organized labor's normative resistance to management technologies was overcome. This happened, in large part, because of the New Deal legislation of the 1930s. This legislation instituted a broad federal bureaucracy that affected labor relations in a number of ways. Authors, including Stryker [1990], Jacoby [1985], and Gordon et al. [1982], have discussed the role of the Wagner Act and the National Labor Relations Board at length. For this study, federal labor legislation was important for several reasons. The legislation institutionalized and legislated the right to bargain collectively. As a result, it diminished one of labor's primary reasons for opposing profit sharing; namely, that these plans prevented organizing. Perhaps more importantly, this legislation rationalized the arena of bargaining, giving rise to several important implications. This legislation normalized and bureaucratized the employee and employer relationship. The relationship of worker and boss was no longer seen as fraught with the "moral" and "ethical" conflicts featured so prominently in the earlier labor press [Jacoby, 1985]. Following the New Deal, this relationship was legislated into one relationship to be accepted, managed, and negotiated, but not overthrown. In other words, the relationship became technical. Labor debates moved from issues of substantive rationality (the proper goals to pursue) to issues of instrumental rationality (how to obtain higher wages and better working conditions). As such, the moral discourse underlying labor opposition to both profit sharing and accounting was preempted.

In addition, the New Deal legislation may have influenced labor's views of accounting by standardizing and formalizing accounting and other issues of corporate government through the Securities Acts of 1933 and 1934. The formation of the Securities and Exchange Commission (SEC) formalized accounting in such a way that the rules for accounting were relocated outside of the firm, seemingly away from the manipulation of owners or managers. Furthermore, "professionalization" meant that accounting increasingly became the bailiwick of "experts" who were located outside the corporation and who appeared to be independent. The effects of both events were reflected in the labor press' reports of accounting in the 1940s and 1950s, when unions actively gathered accounting information and reported that information, implying that this information was uncontested. As we noted previously, the labor press in the early period often described accounting as representing the vested interests of owners, rather than being the disinterested, value-neutral reports of professionals. For example, accounting professionals were described by the press as "the money clerks for men of money" [*Detroit Labor News*, August 19, 1918]. The legislation of corporate financial reporting practices, along with the growing professionalization of accounting, created an image of impartiality for accountants [Larson, 1977; Miranti, 1990]. Just as the New Deal labor legislation changed the relationship between employees and employers, the professionalization of accounting relocated labor in terms of accounting. Increasingly, the labor press did not describe accounting as the biased reports of an enemy, nor even the prerogative of labor, but as "authorless" information.

We are not, however, arguing that organized labor believed every accounting report presented to them in this later period. As Stryker [1990] pointed out, bureaucratic information can be used to manage conflict even if there is disagreement about the information and even if the information is seen as politicized. In order to reduce conflict, the administrative use of information expertise need only be seen as not systematically and universally biased. For Stryker, this meant that information may not illuminate class conflict; it cannot appear to be class-dominated or inherently interest-based. In our study, this means that labor must not see accounting information as inherently biased in favor of management or, ironically, biased in favor of unions. In other words, many people including labor came to believe that while accounting reports could be wrong (that is, reports could be manipulated if management did not follow the rules), accounting reports, prepared by rules established by the SEC and the profession, could also be trustworthy or, more importantly, useful.

It is difficult to differentiate the growth of accounting and auditing regulation and professionalization from a similar trend that occurred in the regulation and bureaucratization of labor unions. These two trends happened in tandem and, we argue, are part of the same push for rationalization that was embraced by managers and unions. It is equally important to note that neither trend began in the 1930s with the New Deal legislation. As noted earlier in this paper, management rhetorics of rationalization and labor's acceptance of these rhetorics appear and disappear in the first decades of the 20th century. However, these rhetorics did not predominate. In the same sense, although accounting was growing in importance (Hawkins, 1986; Vangermeersch, 1986), accounting was not viewed by labor as a body of expertise that should be automatically rejected.

In many ways, this accommodation reflects organized labor's acquiescence to the tenets of the Progressive movement, tenets that large segments of labor had rejected in the early decades of the century. During the period of rejection, labor argued that the labor/management relationship was an issue of moral, and not technological debate. As such, accounting measures neither reduced conflict nor created the stability and predictability that Kolko [1963] and others argued lay at the heart of the Progressive movement [Hays, 1959; Haber, 1964]. Nor did the use of accounting measurement shift political and moral conflicts into arguments about fact, a goal central to the Progressives of the period and to the New Deal legislative solutions that were to follow. In other words, the use of administrative techniques like accounting-based incentive plans in the early period did not reduce or change the nature of labor conflict [Stryker, 1990].

Following the New Deal, however, the opposite was true. Legislative solutions provided a political culture and context that viewed accounting-based incentive plans as objective and immutable, thus appearing more legitimate. Within this context, profit sharing came to be supported and perpetuated by organized labor itself, thus establishing shared meanings of organizational behavior and changing the structure of labor-management conflict. With this complicity of organized labor, unions themselves were rendered governable as were labor-management relations as the calculative regime of accounting was increasingly accepted and applied.

Closing Comments: It is difficult to determine the effects of organized labor's call for and participation in profit sharing even after almost half a century. Some labor historians suggest that the decisions made by organized labor during this period profoundly affected the future of industrial unions as a force in the U.S. For example, Kessler-Harris and Silverman [1992, p. 62] stated:

> Continuing to seek a middle-class lifestyle for their members, unions tried to achieve the appearance of upward economic mobility within a job context that was still circumscribed. In the skilled craft unions the result was a job protectionism that subjected them to attack by a growing civil rights movement and reduced the credibility of the labor movement as a moral voice for less privileged workers.

Although those promoting the 1990's wave of accounting-based incentive plans often couched these plans in terms of cooperation, participation, and team work, the plans also appeared in plants facing imminent closure [Perry and Kegley, 1990]. In the uncertain and complex environment in which these plans were implemented, it seemed increasingly important that unions be able to question the accounting reports of falling profits that often underlie calls for organizational restructuring. However, the ability of unions to confront increasingly complex and difficult accounting and other technical issues has been called into question. For example, Craypo and Nissen [1993, p. 234] contended that unions have sometimes been unable to anticipate or understand corporate strategies for reorganization. They noted: "It is revealing that the first person other than a manager or investment specialist to know that White Consolidated planned to divest the Balw-Knox foundry was neither a local nor an international union official but a Calumet Project researcher who had read about the plan in the business press."

Some labor leaders agreed that unions often lack information about corporate plans or alternative solutions to economic problems. They note that the labor press has been weakened, and that the general media provides little coverage of union issues [Pizzigati and Soloway, 1992]. In the end, organized labor's acceptance of financial accounting and other rationalized management practices may have limited the ability of workers to respond imaginatively and critically to the normative challenges of global economic restructuring.

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